

Greater Cleveland Regional Transit Authority



GENERAL MANAGER / CEO 2020 PROPOSED BUDGET



2020 TRANSMITTAL LETTER

To: Hon. Dennis M. Clough, President,
and Members, Board of Trustees

Date: November 12, 2019

From: India L. Birdsong
General Manager, Chief Executive Officer

Subject: Transmittal Letter & Proposed
FY 2020 Budget

EXECUTIVE SUMMARY

Attached is the General Manager, Chief Executive Officer's proposed 2020 Budget. RTA has managed well over the last several years. The Authority has made strategic decisions to improve operational efficiencies, while continuing to provide quality of service to its customers. This has been accomplished in a manner that best serves our customers and the community.

This year has been a time of progress and accomplishment for the Authority. The following achievements have been made in 2019:

- Cleveland State University's Center for Economic Development completed the Economic Impact Study. The Authority's economic impact to Cuyahoga County is \$322 million annually
- LTK Engineering Services completed the Rail Car Study. The replacement cost is \$240 million, which includes 34 Heavy Rail Vehicles, 24 Light Rail Vehicles, and upgrades to rail shop and infrastructure
- Twenty (20) community engagement meetings were held in May and over 20 community engagement meetings in September through October for the System Redesign Study and Fare Equity Study. Customers were asked to complete on-line surveys requesting feedback for each study during May and September through October
- The Authority amended the 2019 General Fund budget in March to increase the sales tax revenue budget and increase the transfer to the Reserve Fund for Rail Car Replacement
- The Authority completed a \$30 million debt issuance in May to be used as local match for RTA Development Fund projects
- The Authority received excellent credit ratings from Standards & Poor's (AA+) and Moody's (Aa1)
- Greater Cleveland Partnership is finalizing the Administrative Efficiency Study and Operational Review
- The Authority completed a \$6.4 million track upgrade to the Red Line in May, extending between the West Park Station and the Airport Tunnel, including 3.6 miles of railroad track, replacing 12,275 timber cross ties, improving track drainage, adding signal improvements, and repairing the platform at Puritas Station
- A creative corrective action plan was implemented for the S-Curve Retaining Wall, installing 75 steel beam frames along the 300-foot long wall
- Upgrades to the East 105-Quincy Red Line Station were completed, building a second station entrance, extending the platform and enhancing the ADA accessibility at the station as part of the Opportunity Corridor
- Cleveland hosted the Major League Baseball's All Star Game and Tall Ships Festival this summer
- The Authority honored the late William Harry Alexander's contributions to RTA. Mr. Alexander served as one of the original members of the Board of Trustees when RTA was formed in 1975 and served as President of the Board of Trustees from 1979 – 1984
- The Authority honored the late Charles P. Lucas, Sr., father of RTA Board Vice President Rev. Charles P. Lucas. Mr. Lucas was the first African American Cleveland Transit Agency (CTA) Board Member, before RTA was formed
- The Authority created Wi-Fi Hot Spots at a number of stations, including: Stephanie Tubbs Jones Transit Center, East 55th, Southgate, Cedar-University Rapid Station and bus waiting area, Windermere Transit Center and Tower City

The Rail Car Study was conducted by LTK Engineering Services. This was a comprehensive evaluation of the Authority's Heavy Rail Vehicles (HRV) and Light Rail Vehicles (LRV). Based on the results of the study, the HRVs have an estimated 5 years of remaining life. The cost for replacement of the HRV fleet is estimated at \$102 million for 34 cars (about \$3 million per vehicle). The LRVs have an estimated remaining life of 10 years. The estimated replacement cost for the LRV fleet is \$96 million (about \$4 million per vehicle). An additional \$42 million will be needed to improve the rail facilities and infrastructure for the new vehicles. By the end of the FY 2019, the Authority will have nearly \$29 million of local funding in the Reserve Fund, Rolling Stock Replacement for the local match of the rail vehicles.

The Economic Impact Study was conducted by Cleveland State University's Center for Economic Development. The results of this study were presented to the Board of Trustees in the 1st Quarter 2019 and included the following:

- Transit impact on Cuyahoga County property values: \$2.2 billion
- Property values increased 3.5% within a decade for previously unserved census tracts
- RTA's annual economic impact to Cuyahoga County: \$322 million
- RTA's annual direct spending in Cuyahoga County: \$182 million
- RTA creates and sustains nearly 3,000 jobs in Cuyahoga County
- RTA employees residing in Cuyahoga County: 1,800
- Jobs created from RTA-purchased goods and services in Cuyahoga County: 1,177
- Improved transit access in urban neighborhoods results in:
 - 12.9% reduction in poverty
 - 3.1% growth in employment

The Greater Cleveland Partnership (GCP) in collaboration with WSP completed the Administrative Study and Financial Review. The results of this study were presented to the Board of Trustees in October 2019. A summary of the conclusions and recommendations are below:

- Ridership declined 31% between 2007 and 2017 due to:
 - Cuyahoga County population loss and emigration
 - Changing development and employment patterns
 - Increased competition in urban transportation market (Uber and Lyft)
 - Dispersion of jobs in Cuyahoga County to the outlying areas creating difficulty in transit providing accessible transportation
- Benchmarking is on par with peers except for administrative and paratransit costs
- Rail service is high compared to ridership
- Future of rail service in Cuyahoga County is tied to regional planning and economic development
- Operational budget is balanced based on the Authority's assumptions
- Significant funding gaps exist for rail car replacement and rail infrastructure
- Cost efficiencies and revenue opportunities were identified through system redesigns
- Strong Key Performance Indicators (KPIs) exist but need to be shared with the public

GENERAL FUND

ASSUMPTIONS

Inflation

Assumption:

1.8% to 2.1%

Rationale:

The Federal Reserve recently released their projections for the remainder of 2019 through the next 30 years. The Federal Reserve Bank of Cleveland noted that the 4th District economic activity has been stable and expects inflation to be between 1.8 percent and 2.1 percent. The Federal Reserve Bank of Cleveland projects the inflation rate to remain under 2.1 percent over the next 10 years.

Interest Rates

Assumption:

1.75% to 2.5%

Rationale:

The Federal Reserve Bank cut the interest rate a quarter of a percent point in September 2019, the second such cut in interest rates in 2019. The Federal Reserve further reduced interest rates by another quarter point in October. The Authority has received an average of 2.26 percent interest income on its General Fund investments and an average of 2.32 percent average yield on all investments in all Funds in 2019. For the 2020 budget, a 2.0 percent rate was used to determine the amount of investment earnings.

REVENUES

The 2020 budget estimates \$283.6 million in General Fund revenue and total resources of \$295.8 million. This is a \$1.3 million decrease in total resources compared to the 2019 year-end estimate. The chart to the right shows the percentage of each revenue stream for 2020. Sales & Use Tax has represents 75.9 percent of total revenue. Passenger Fares represents 14.6 percent of total revenue and has been slowly decreasing due to decreased ridership. Reimbursed expenditures, which includes grant-funded and preventive maintenance reimbursements to the Operating Budget, is the third largest source of revenue, at 7.6 percent of the total revenue for 2020.

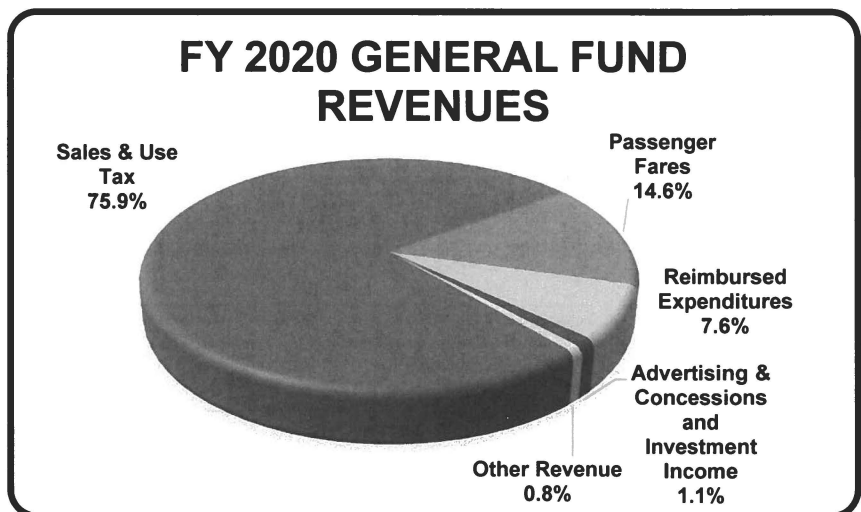


Figure 4

The specific assumptions and calculations for the revenues included there are as follows:

PASSENGER FARES

\$41.4 MILLION

RATIONALE:

Passenger Fares are estimated at \$41.4 million for 2020 representing a 4.0 percent decrease from 2019 levels based on the ridership estimates for 2020. As fuel prices remain low, choice riders continue to opt driving rather than taking public transit. Additionally, ridership on the Red Line declined during the summer due to track work on the west side. The 2020 Budget does not include any fare increase or service change. The fare increase scheduled for August 2019 was postponed until August 2020, so the base fare is expected to remain at \$2.50.

OTHER REVENUE

\$2.1 MILLION

RATIONALE:

Other receipts include contractor and hospitalization claim reimbursements, rent, salvage sales, and identification card proceeds, among other miscellaneous receipts. The amounts received from these sources have fluctuated over the years, mainly due to one-time settlements and reimbursements. For 2020, the other revenue category is budgeted at \$2.1 million.

REIMBURSED EXPENDITURES	\$21.5 MILLION
PREVENTIVE MAINTENANCE REIMBURSEMENTS	\$20.0M
FUEL TAX REIMBURSEMENT	\$ 0.7M
REIMBURSED LABOR & MATERIAL	\$ 0.8M
TOTAL	\$21.5M

RATIONALE:

Reimbursed Expenditures category includes reimbursements for Preventive Maintenance (PM), fuel tax, labor and material, as well as other Federal and State reimbursements. For 2020, Reimbursed Expenditures are budgeted at \$21.5 million. This includes Preventive Maintenance at \$20.0 million, \$0.7 million for fuel tax reimbursements, and \$0.8 million for force account labor and other reimbursements. Increasing the PM Reimbursement would reduce available funding for capital projects and negatively impact the ability to achieve and maintain a state of good repair. An \$11.76 million OTP2 grant was awarded by Ohio, of which \$6 million will be used for Reimbursed Expenditures. This will free up formula funding to be used for the Light Rail Track rehabilitation.

EXPENDITURES

Operating Expenditures for the 2020 Operating Budget include the appropriation and expenditure changes as described below. As with revenues, expenditures are estimated not only for the 2020 Budget Year, but also for the two consecutive out-years to assist with longer term planning. The General Fund Balance Analysis projections include those out-years to demonstrate the impact of various items contained in the 2020 Budget (collective bargaining agreements, service changes, contract changes, as well as requirements of the Capital Improvement Plan, etc.). Figure 7 summarizes the budgeted expenditures for 2020 and highlights the various areas of cost increases included in the proposed Operating Budget.

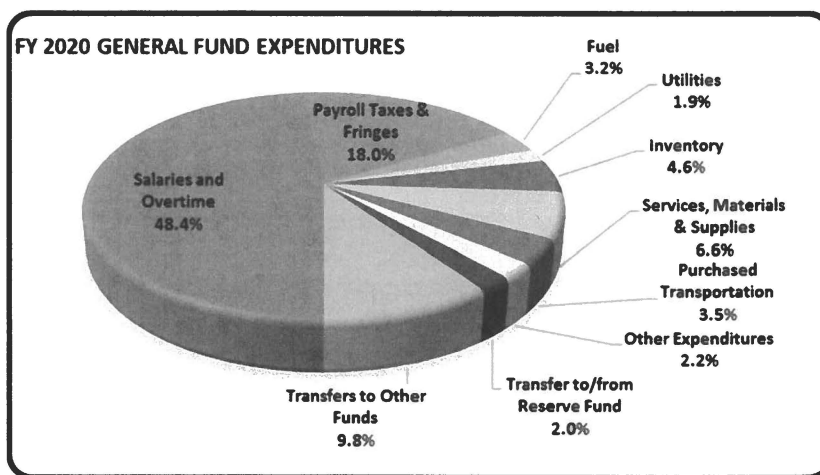


Figure 6

SALARIES & OVERTIME

\$143.7 MILLION

RATIONALE:

Total salaries, wages and overtime for the 2020 Operating Budget are \$143.7 million and represent 54.8 percent of the total 2020 General Fund expenses. The 2020 Operating Budget includes 2,333 FTE (full time equivalent) positions. A 2.5 percent salary increase is budgeted for all positions. Both union contracts ended in 2017. The FOP signed a new agreement in 2019, which again aligns wage increases to the

\$650,000 of pass-through expenses for Medina County. The Authority trades operating dollars in exchange for federal funding received by Medina County for their transit agency.

Other expenses includes liability claims and insurance premiums, which are budgeted at \$4.4 million for 2020. Training, travel, and professional expenses are also in this category, budgeted at \$2.2 million. This includes tuition reimbursements, property taxes, leases and rentals, and other miscellaneous expenses. Travel costs for the Bus and Rail Rodeos are also included.

DESCRIPTION	2019 Amended Budget	2019 Third Quarter Estimate	2020 Budget	2020 Budget vs. 2019 Amended Budget	% Difference
SALARIES & OVERTIME	\$ 138,563,985.00	\$ 136,887,461.00	\$ 143,667,173.00	\$ 5,103,188.00	3.68%
FRINGE BENEFITS	\$ 53,873,933.00	\$ 51,773,035.00	\$ 53,391,398.00	\$ (482,535.00)	-0.90%
SERVICES	\$ 14,632,263.00	\$ 13,420,085.00	\$ 15,811,345.00	\$ 1,179,082.00	8.06%
MATERIAL & SUPPLIES	\$ 17,117,078.00	\$ 13,909,612.00	\$ 17,330,409.00	\$ 213,331.00	1.25%
FUEL/UTILITIES	\$ 15,639,118.00	\$ 14,170,446.00	\$ 15,099,457.00	\$ (539,661.00)	-3.45%
LIABILITIES	\$ 4,495,109.00	\$ 3,394,144.00	\$ 4,440,186.00	\$ (54,923.00)	-1.22%
PURCHASED TRANSPORTATION	\$ 8,434,045.00	\$ 9,094,714.00	\$ 10,345,000.00	\$ 1,910,955.00	22.66%
OTHER	\$ 1,762,244.00	\$ 1,260,091.00	\$ 2,128,906.00	\$ 366,662.00	20.81%
TOTAL	\$ 254,517,775.00	\$ 243,909,588.00	\$ 262,213,874.00	\$ 7,696,099.00	3.02%

Figure 7

TRANSFER TO THE INSURANCE FUND

The Insurance Fund has a required minimum fund balance of \$5.0 to protect the Authority against catastrophic or extraordinary losses. The Authority is self-insured in all areas except personal property and equipment. Expenditures in the Insurance Fund are used for extraordinary claims and insurance premiums over \$150,000. With the increase in safety measures, claims have declined significantly, and the budgeted transfers have generally been reduced. In 2019, a transfer of \$2.7 million was budgeted to cover insurance premiums and projected claim payments and to maintain the necessary ending balance. For 2020, a transfer of \$2.0 million is needed to cover estimated costs and maintain the fund at the required level. Continued safety actions may allow the amounts in the out-years to be lowered.

TRANSFER TO THE SUPPLEMENTAL PENSION FUND

The Supplemental Pension Fund was established for payments of benefits relating primarily to certain retired employees of the Authority and predecessor transit systems. Since 1986, the Pension Fund has also been used to account for funds on deposit with the Ohio Public Employees Deferred Compensation Board. The Authority has no control over these funds but is required to account for them in a trust. The 2020 budget estimates that the Supplemental Pension Fund will need transfers of \$50,000. For the out-years, 2021 and 2022, additional transfers are planned in order to maintain the necessary balance within this fund as identified in a bi-annual actuarial study.

TRANSFERS TO CAPITAL

This measure has fluctuated over the years. Between 2016 and 2018, General Fund Transfer to Capital was \$31.4 million, \$27.3 million, and \$32.6 million, respectively. In 2018, an additional transfer of \$5.0 million was needed for the Radio CAD/AVL project, which increased the sales tax contribution to capital to 16.2 percent. Funding for this project came from a grant from the Federal Highway Administration under a 50/50 cooperative grant agreement that will reimburse RTA 50 percent of the funding used for the project. The transfer to capital for 2019 was \$25.3 million, \$1.7 million less than budget as proceeds from the Bond Issuance in 2019 was used to pay for the principal and interest payments for 2019 bonds. The 2020 Budget calls for a transfer of \$27.1 million to Capital. Local funds are transferred to the capital program to provide the local match for preventive maintenance expenditures and for other locally funded state of good repair projects that are ineligible to fund with debt service. For 2021 and 2022, the transfers to capital are planned at \$21.7 million and \$22.3 million, respectively.

POLICY COMPLIANCE

The discussion in this section focuses on the Authority's adopted financial policy objectives. These objectives represent trends or indicators that are analyzed as they relate to long-range financial implications for the organization. These financial policy objectives were amended in August 2011 and again in March 2017. The financial policies or trends, as outlined in Attachment B, are applied to the following areas:

OPERATING EFFICIENCY

An OPERATING RATIO of at least 25 percent is the policy goal. At 17.1 percent, this ratio will not meet the objective for 2020, reflecting ridership declines over the past several years. RTA will need to increase operating revenues and/or control expenses throughout the year in order to end the year with a ratio above 20 percent.

The COST PER HOUR OF SERVICE is to be maintained at or below the level of inflation (under 2 percent for 2020). For 2020, budgeted operating costs are increasing by 7.5 percent, compared to the 2019 estimate. Total Service hours are budgeted to be maintained in 2020. The cost per hour of service for 2020 is budgeted at \$143.1, an 8.6 percent increase over 2019 estimates. This objective will not be met.

The ONE-MONTH OPERATING RESERVE requires that the Authority should have a year-end balance equal to one month's operating costs. The Operating Reserve objective is projected to be met again in 2019 at 1.8-months. For 2020, a one-month operating reserve is equal to \$21.8 million. With a budgeted ending balance of \$25.0 million, a 1.1-month reserve, this measure will again be met.

CAPITAL EFFICIENCY

The goal for the DEBT SERVICE COVERAGE ratio is to be at or above 1.5. A debt issuance was budgeted for 2017 but deferred to 2018 and again to 2019, based on capital needs and market conditions. Debt service coverage for 2019 is estimated at 4.21. For 2020, the Debt Service Coverage is budgeted at 2.65. This objective will be met.

Another financial goal is to contribute a minimum of 10 percent of Sales Tax revenue to capital. This indicator includes both the direct contributions to capital and the amount "set-aside" in the General Fund for debt service. The CONTRIBUTION TO CAPITAL is projected to be above the minimum of 10 percent in 2019, at 12.0 percent. The \$30 million debt issuance in 2019 brought the Sales Tax contribution down. The financial contributions to the capital programs support 100 percent of locally funded capital projects, provide the local match for projects funded by grants, and funds the Authority's debt service requirements. For 2020, the Sales Tax Contribution to Capital is budgeted at 12.6 percent.

The CAPITAL MAINTENANCE OUTLAY TO CAPITAL EXPANSION remains above the Board Policy goal of between 75 percent and 90 percent due to a large number of State of Good Repair (SOGR) capital maintenance projects including the bus improvement program, reconstruction of heavy and light rail stations, and track infrastructure projects. It will remain above the 90 percent maximum for 2020 and the out years as the focus of the Authority's capital program remains on the maintenance, rehabilitation, and the replacement and/or upgrade of existing capital assets, rather than on expansion projects.

The Authority has been able to improve internal processes over the past years and reduce costs to enable shifts of financial resources to address many SOGR capital projects. The Authority must continue to maintain a balance between operating and capital funds to stay successful and develop plans to address the significant challenges it will face in the upcoming years.

2020 - 2024 COMBINED CAPITAL IMPROVEMENT PLAN Combined Budget Authority						
PROJECT CATEGORY	2020 Budget	2021 Plan	2022 Plan	2023 Plan	2024 Plan	2020-2024
Bus Garages	\$0	\$0	\$700,000	\$4,312,665	\$1,662,800	\$6,675,465
Bus Improvement Program	\$21,305,000	\$21,906,000	\$22,062,000	\$20,960,000	\$20,960,000	\$107,193,000
Equipment & Vehicles	\$1,459,702	\$1,645,418	\$3,065,687	\$1,143,984	\$952,000	\$8,266,791
Facilities Improvements	\$14,779,682	\$13,913,599	\$12,214,094	\$15,002,330	\$15,229,500	\$71,139,205
Other Projects	\$2,459,576	\$2,459,576	\$2,459,576	\$2,459,576	\$2,459,576	\$12,297,880
Preventive Maint./Oper. Reimb.	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$20,000,000	\$100,000,000
Rail Projects	\$32,954,362	\$30,030,973	\$29,197,680	\$27,592,286	\$37,689,081	\$157,464,382
Rail Car Replacement Program	\$8,000,000	\$31,250,000	\$31,250,000	\$31,250,000	\$23,250,000	\$125,000,000
Transit Centers	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$1,500,000
TOTALS	\$101,258,321	\$121,505,566	\$121,249,037	\$123,020,841	\$122,502,957	\$589,536,722

Figure 10

CONCLUSION

GCRTA has managed well over the past six years. The 2020 budget maintains current service levels. As in the past, the GCRTA will closely monitor expenses and take the necessary actions as the budgeted operating reserve falls.

GCRTA must continue to align expenses with revenues, improve its operational efficiencies and effectiveness to provide quality service and meet its commitments to its customers, while at the same time, it must maintain the necessary funds to sustain operations and keep its infrastructure in a state of good repair. The proposed 2020 General Fund and the Other Fund Budgets achieve that goal, but at the same time indicate that challenges lie ahead in the upcoming years.

The General Fund Balance Analysis and Financial Policy Goals for the Proposed 2020 Budget are below.

ATTACHMENT C
RTA Development Fund Balance Analysis

	2018 Actual	2019 Amended Budget	2019 3Q Estimate	2020 Proposed Budget	2021 Plan	2022 Plan
Beginning Balance	20,136,261	18,099,415	18,099,415	36,608,688	14,776,584	23,289,906
Revenue						
Debt Service Proceeds	0	30,000,000	30,000,000	0	25,000,000	0
Transfer from RTA Capital Fund	9,434,255	8,984,255	8,984,255	10,684,255	6,034,255	5,884,255
Transfer from the Reserve Fund	2,000,000	0	0	0	2,400,000	5,200,000
Investment Income	258,572	800,000	800,000	500,000	700,000	500,000
Federal Capital Grants	56,531,115	42,082,188	42,082,188	63,887,602	67,750,869	65,973,700
State Capital Grants	827,365	1,384,658	1,384,658	1,384,658	1,384,658	1,384,658
Other Revenue	-32,530	0	0	0	0	0
Total Revenue	69,018,777	83,251,101	83,251,101	76,456,515	103,269,782	78,942,613
Total Resources	89,155,038	101,350,516	101,350,516	113,065,203	118,046,367	102,232,519
Expenditures						
Capital Outlay	71,055,623	64,741,828	64,741,828	98,288,619	94,756,461	92,270,909
Other Expenditures	0	0	0	0	0	0
Total Expenditures	71,055,623	64,741,828	64,741,828	98,288,619	94,756,461	92,270,909
Ending Balance	18,099,415	36,608,688	36,608,688	14,776,584	23,289,906	9,961,610

ATTACHMENT D
RTA Capital Fund Balance Analysis

	2018 Actual	2019 Amended Budget	2019 3Q Estimate	2020 Proposed Budget	2021 Plan	2022 Plan
Beginning Balance	1,299,482	3,214,558	3,214,558	2,965,343	2,773,912	1,659,247
Revenue						
Transfer from General Fund	15,259,919	11,887,181	12,005,224	13,397,525	7,914,580	8,527,908
Investment Income	62,161	60,000	60,000	65,000	65,000	65,000
Other Revenue	1,855	0	0	0	0	0
Total Revenue	15,323,935	11,947,181	12,065,224	13,462,525	7,979,580	8,592,908
Total Resources	16,623,417	15,161,739	15,279,781	16,427,869	10,753,492	10,252,155
Expenditures						
Asset Maintenance	1,920,700	1,405,000	1,405,000	1,510,000	1,755,000	1,710,000
Routine Capital	2,053,904	1,925,183	1,925,183	1,459,702	1,304,990	1,243,000
Other Expenditures	0	0	0	0	0	0
Transfer to RTA Development Fund	9,434,255	8,984,255	8,984,255	10,684,255	6,034,255	5,884,255
Total Expenditures	13,408,859	12,314,438	12,314,438	13,653,957	9,094,245	8,837,255
Ending Balance	3,214,558	2,847,301	2,965,343	2,773,912	1,659,247	1,414,900

ATTACHMENT G
Supplemental Pension Fund Balance Analysis

	2018 Actual	2019 Amended Budget	2019 3Q Estimate	2020 Proposed Budget	2021 Plan	2022 Plan
Beginning Balance	1,333,767	1,352,482	1,352,482	1,356,482	1,360,482	1,361,482
Revenue						
Investment Income	16,260	14,000	14,000	14,000	14,000	14,000
Transfer from General Fund	60,000	50,000	50,000	50,000	45,000	40,000
Total Revenue	76,260	64,000	64,000	64,000	59,000	54,000
Total Resources	1,410,027	1,416,482	1,416,482	1,420,482	1,419,482	1,415,482
Expenditures						
Benefit Payments	57,545	60,000	60,000	60,000	58,000	58,000
Other Expenditures	0	0	0	0	0	0
Total Expenditures	57,545	60,000	60,000	60,000	58,000	58,000
Reconciling Journal Entry	0	0	0	0	0	0
Ending Balance	1,352,482	1,356,482	1,356,482	1,360,482	1,361,482	1,357,482

ATTACHMENT H
Law Enforcement Fund Balance Analysis

	2018 Actual	2019 Amended Budget	2019 3Q Estimate	2020 Proposed Budget	2021 Plan	2022 Plan
Beginning Balance	26,958	34,063	34,063	55,863	77,863	99,863
Revenue						
Law Enforcement Revenue	27,850	20,000	20,000	20,000	20,000	20,000
Law Enforcement Training Revenue	0	0	0	0	0	0
Investment Income	1,219	1,800	1,800	2,000	2,000	2,000
Other Revenue	0	0	0	0	0	0
Total Revenue	29,069	21,800	21,800	22,000	22,000	22,000
Total Resources	56,027	55,863	55,863	77,863	99,863	121,863
Expenditures						
Capital & Related Items	21,964	0	0	0	0	0
Training	0	0	0	0	0	0
Total Expenditures	21,964	0	0	0	0	0
Reconciling Journal Entry	0	0	0	0	0	0
Ending Balance	34,063	55,863	55,863	77,863	99,863	121,863

